UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
--- SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
--- SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10962

CALLAWAY GOLF COMPANY
(Exact name of registrant as specified in its charter)

California	95-3797580
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2285 Rutherford Road, Carlsbad, CA 92008-8815
(619) 931-1771
(Address, including zip code and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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The number of shares outstanding of the issuer's of Common Stock, $.01 par value, as of July 31, 1996 was 72,484,172.

CALLAWAY GOLF COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED BALANCE SHEET
(In thousands, except share and per share data)

	June 30, 1996	December 31, 1995
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105,854	$ 59,157
Accounts receivable, net	88,869	73,906
Inventories, net	77,187	51,584
Deferred taxes	24,825	22,688
Other current assets	3,487	2,370
Total current assets	300,222	209,705
Property and equipment, net	75,178	69,034
Other assets	20,296	11,236
	$ 395,696	$ 289,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 32,888	$ 26,894
Accrued employee compensation and benefits	21,302	10,680
Accrued warranty expense	26,995	23,769
Income taxes payable	17,181	1,491
Total current liabilities	98,366	62,834
Long-term liabilities	2,988	2,207
Commitments (Note 10)		
Shareholders' equity:		
Preferred Stock, $.01 par value 3,000,000 shares authorized, none issued and outstanding at June 30, 1996 and December 31, 1995, respectively	0	0
Common Stock, $.01 par value 240,000,000 shares authorized, 72,181,936 and 70,912,129 issued and outstanding at June 30, 1996 and December 31, 1995, respectively	722	709
Paid-in capital	289,546	214,846
Unearned compensation	(1,844)	(2,420)
Retained earnings	182,143	131,712
Less: Grantor Stock Trust (5,300,000 shares) at market (Note 9)	(176,225)	(119,913)
Total shareholders' equity	294,342	224,934
	$ 395,696	$ 289,975

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF INCOME (UNAUDITED)
(In thousands, except per share data)

	Three months ended				Six months ended			
	June 30, 1996		June 30, 1995		June 30, 1996		June 30, 1995	
Net sales	$210,002	100%	$155,699	100%	$345,140	100%	$274,724	100%
Cost of goods sold	98,919	47%	75,863	49%	165,425	48%	134,411	49%
Gross profit	111,083	53%	79,836	51%	179,715	52%	140,313	51%
Selling expenses	21,853	10%	17,082	11%	39,998	12%	36,695	13%
General and administrative expenses	24,925	12%	16,274	10%	42,116	12%	27,894	10%
Research and development costs	3,245	2%	2,277	1%	6,407	2%	4,277	2%
Income from operations	61,060	29%	44,203	28%	91,194	26%	71,447	26%
Other income, net	1,470		964		2,333		1,645	
Income before income taxes	62,530	30%	45,167	29%	93,527	27%	73,092	27%
Provision for income taxes	23,593		17,838		35,135		28,858	
Net income	$ 38,937	19%	$ 27,329	18%	$ 58,392	17%	$ 44,234	16%
Earnings per common share	$.55		$.39		$.83		$.62	
Common equivalent shares	70,504		70,074		70,049		71,217	
Dividends paid per share	$.06		$.05		$.12		$.10	

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
(In thousands)

	Six months ended	
	June 30, 1996	June 30, 1995
Cash flows from operating activities:		
Net income	$ 58,392	$ 44,234
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,205	5,099
Loss on disposal of fixed assets	12	0
Non-cash compensation	2,202	896
Increase (decrease) in cash resulting from changes in:		
Accounts receivable, net	(14,920)	(28,199)
Inventories, net	(25,554)	10,741
Deferred taxes	(2,974)	1,787
Other assets	(9,345)	4
Accounts payable and accrued expenses	5,877	1,775
Accrued employee compensation and benefits	10,617	7,970
Accrued warranty expense	3,225	3,025
Income taxes payable	15,690	10,759
Other liabilities	781	134
Net cash provided by operating activities	50,208	58,225
Cash flows from investing activities:		
Capital expenditures	(12,361)	(9,125)
Intangible assets	9	0
Net cash used in investing activities	(12,352)	(9,125)
Cash flows from financing activities:		
Issuance of Common Stock	8,812	2,519
Tax benefit from exercise of stock options	7,963	4,886
Dividends paid	(7,960)	(6,826)
Retirement of Common Stock	0	(41,903)
Net cash provided (used in) financing activities	8,815	(41,324)
Effect of exchange rate changes on cash	26	17
Net increase in cash and cash equivalents	46,697	7,793
Cash and cash equivalents at beginning of period	59,157	54,356
Cash and cash equivalents at end of period	$105,854	$ 62,149

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)
(In thousands)

	Common Shares Stock	Amount	Paid-in Capital	Unearned Compensation	Retained Earnings	GST	Total
Balance, December 31, 1995	70,912	$709	$214,846	($2,420)	$131,712	($119,913)	$224,934
Exercise of stock options	1,171	12	8,800				8,812
Tax benefit from exercise of stock options			7,963				7,963
Compensatory stock options			336	576			912
Compensatory stock	99	1	1,289				1,290
Cash dividends					(8,596)		(8,596)
Dividends on shares held by GST					636		636
Equity adjustment from foreign currency translation					(1)		(1)
Adjustment of GST shares to market value			56,312			(56,312)	
Net income					58,392		58,392
Balance, June 30, 1996	72,182	$722	$289,546	($1,844)	$182,143	($176,225)	$294,342

See accompanying notes to consolidated condensed financial statements.

CALLAWAY GOLF COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note 1

The accompanying consolidated condensed balance sheet as of June 30, 1996 and the consolidated condensed statements of income, cash flows and shareholders' equity for the six month periods ended June 30, 1996 and 1995 have been prepared by Callaway Golf Company (the Company) and have not been audited. These financial statements, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed for the year ended December 31, 1995. Interim operating results are not necessarily indicative of operating results for the full year. The consolidated condensed financial statements include the accounts of the Company and its wholly owned subsidiaries, Callaway Golf Sales Company, Callaway Golf (UK) Limited and Callaway Golf Ball Company. All significant intercompany transactions and balances have been eliminated.

Note 2

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period increased by dilutive common stock equivalents using the treasury stock method. Fully diluted earnings per share was substantially the same as primary earnings per share for the periods ended June 30, 1996 and 1995, respectively. Shares owned by the Callaway Golf Company Grantor Stock Trust are included in the number of weighted average shares outstanding using the treasury stock method with assumed proceeds from exercise equal to the aggregate closing price of those shares at the end of the reporting period. The dilutive effect of rights to purchase preferred or common shares under the Callaway Golf Shareholder Rights Plan have not been included in weighted average share amounts as the conditions necessary to cause these rights to be exercised were not met.

Note 4

Inventories at June 30, 1996 and December 31, 1995 consisted of:

	June 30, 1996 (Unaudited)	December 31, 1995
	(in thousands)	
Inventories:		
Raw materials	$47,239	$23,980
Work-in-process	1,856	1,109
Finished goods	32,738	31,291
	81,833	56,380
Less reserve for obsolescence	(4,646)	(4,796)
Net inventories	$77,187	$51,584

Note 5

The provision for income taxes is as follows:

	Six months ended June 30, 1996 (Unaudited)	Six months ended June 30, 1995 (Unaudited)
	(in thousands)	
Current tax provision:		
Federal	$31,637	$20,581
State	6,127	5,497
Foreign	368	903
Deferred tax (benefit) expense:		
Federal	(2,462)	1,365
State	(524)	(45)
Foreign	(11)	557
	$35,135	$28,858

Deferred tax assets are comprised of the following:

	June 30, 1996 (Unaudited)	December 31, 1995
	(in thousands)	
Reserves and allowances	$18,025	$16,381
Depreciation and amortization	5,094	4,297
Deferred compensation	2,219	2,019
Compensatory stock options and rights	1,406	1,346
Effect of inventory overhead adjustment	1,274	1,414
State taxes, net	830	972
Other	1,160	605
Net deferred tax assets	$30,008	$27,034

Note 6

On May 21, 1996, the Company paid a quarterly dividend of $.06 per share to shareholders of record on April 30, 1996. Additionally, on July 17, 1996, the Company declared a quarterly dividend of $.06 per share payable August 20, 1996 to shareholders of record on July 30, 1996.

Note 7

During the six months ended June 30, 1996, the Company entered into forward foreign currency exchange rate contracts to hedge payments due on intercompany transactions from its wholly owned foreign subsidiary. The effect of this practice is to minimize variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. These foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the intercompany transactions being hedged, and the Company does not engage in hedging contracts which exceed the amount of the intercompany transactions. At June 30, 1996, the Company had approximately $5,603,000 of foreign exchange contracts outstanding. The contracts mature between July and September of 1996. Realized and unrealized losses on these contracts are recorded in net income. The net realized and unrealized losses from foreign exchange contracts for the six months ended June 30, 1996 totaled approximately $18,000.

Note 8

At June 30, 1996, the Company held investments in U.S. Treasury bills with maturities of three months or less in the aggregate amount of $92.4 million. Management determines the appropriate classification of its U.S. Government and other debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company has included these securities, net of amortization, in cash and cash equivalents and has designated them as "held-to-maturity."

Note 9

The Company's Grantor Stock Trust (GST) holds 5,300,000 shares of Company stock at June 30, 1996. During the term of the GST, shares in the GST may be used to fund the Company's obligations with respect to one or more of the Company's non-qualified or qualified employee benefit plans. Shares owned by the GST are accounted for as a reduction to shareholders' equity until used in connection with employee benefits. Each period the shares owned by the GST are valued at the closing market price, with corresponding changes in the GST balance reflected in capital in excess of par value. These shares have no impact on the net amount of shareholders' equity.

In 1995, the Company implemented a plan to protect shareholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding Common Stock carries one Right to Purchase Series "A" Junior Participating Preferred Stock ("the Right"). The Right entitles the holder, under certain circumstances, to purchase Common Stock of Callaway Golf Company or of the acquiring company at a substantially discounted price ten days after a person or group publicly announces it has acquired or has tendered an offer for 15% or more of the Company's outstanding Common Stock. The Rights are redeemable by the Company at $.01 per Right and expire in 2005.

Note 10

In the normal course of business, the Company enters into certain long term purchase commitments with various vendors. The Company has agreements with one of its suppliers which require the Company to purchase, under certain conditions, a minimum of 2,000,000 graphite shafts, or 25% of all graphite shafts required in the manufacture of its golf clubs, whichever is greater, through December 31, 1997, and 25% of all graphite shaft requirements from January 1998 through May 1998.

In April 1996, the Company entered into a clubhead supply agreement with one of its suppliers to purchase, under certain conditions, titanium clubheads costing up to a maximum of $97,500,000 for the remainder of 1996 through December 1997. This agreement is cancelable by the Company at any time by giving six months notice.

Effective June 1995, the Company agreed to form a joint venture with Sturm, Ruger & Company, Inc. (Sturm, Ruger), its main supplier of Great Big Bertha(R) titanium heads, to construct a foundry that would significantly increase Sturm, Ruger's capacity to produce heads. Under the terms of the joint venture agreements, the Company shall have a 50% equity interest in the new foundry and is required to contribute up to $7,000,000 in capital contributions for developing, designing, equipping and operating the new facility. The Company accounts for its investment in the joint venture pursuant to the equity method. As of June 30, 1996, the Company had made capital contributions of $4,128,000 to the joint venture, which had not commenced operations. While it was comtemplated in 1995 that the Company would purchase from Sturm, Ruger and the joint venture at competitive prices a minimum quantity of club heads in 1996, 1997 and 1998, costing up to about $42,000,000 per year, delays and cost overruns in the joint venture project, improved production at Sturm, Ruger and the development of new alternative sources for quality titanium castings at significantly lower prices than those originally contemplated for the joint venture have prompted the parties to enter into discussions about the continuing need for the joint venture.

Note 11

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation." The Company will continue to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Adoption of SFAS 123 will not have a material impact on the Company's financial position or results of operations for the year ending December 31, 1996.

Note 12

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The new standard requires that the Company investigate potential impairments of long-lived assets, certain identifiable intangibles, and associated goodwill, on an exception basis, when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when the sum of the expected future net cash flows is less than the carrying amount of the asset. Adoption of SFAS 121 did not have a material impact on the Company's financial position or results of operations.

Note 13

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. The complaint seeks damages of $290,000 000, a royalty of $27,000,000 or compensatory damages for breach of alleged oral contract, as well as unspecified punitive damages and costs. The Company is vigorously defending the suit, and believes that it has good and valid defenses to the claims and that the suit will not have a material adverse effect upon the Company's financial position or results of operations.

Note 14

On July 1, 1996 the Company acquired an 80% ownership interest in its German distributor, Golf Trading GmbH. This acquisition was made through the formation of Callaway Golf (Germany) GmbH (a wholly owned subsidiary) which acquired 80% of the outstanding common stock of Golf Trading GmbH.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

When used in this discussion, the words "believes," "anticipated" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting the Golf Club Industry and Callaway Golf" in this Report, as well as the Company's other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

Results of Operations

Three-month periods ended June 30, 1996 and 1995:

Net sales increased 35% to $210.0 million for the three months ended June 30, 1996 compared to $155.7 million for the same period in the prior year. This increase was primarily attributable to increased sales of Great Big Bertha(R) Drivers and the introduction of Great Big Bertha(R) Fairway Woods in January 1996, for which shipments in limited quantities began in March 1996, combined with increased sales of Big Bertha(R) Irons. These sales increases were offset by a decrease in net sales of Big Bertha(R) War Bird(R) Metal Woods.

For the three months ended June 30, 1996, gross profit increased to $111.1 million from $79.8 million for the same period in the prior year and gross margin increased to 53% from 51%. The increase in gross profit was primarily the result of decreases in material costs and manufacturing labor and overhead costs related to increased production volume.

Selling expenses increased to $21.9 million in the second quarter of 1996 compared to $17.1 million in the second quarter of 1995. As a percentage of net sales, selling expenses in the second quarter decreased to 10% from 11% for the same period in 1995. The decrease as a percentage of net sales was primarily attributable to costs being spread over a larger sales volume. The $4.8 million increase was primarily a result of increased sales representatives' salaries and commission expense in the quarter due to a new compensation package under which such expenses are incurred more evenly throughout the year, combined with increases in advertising, tour endorsement and promotional expenses.

General and administrative expenses for the three months ended June 30, 1996 increased to $24.9 million from the $16.3 million incurred during the second quarter of 1995. As a percentage of net sales, general and administrative expenses increased to 12% for the second quarter of 1996 from 10% for the same period in 1995. The $8.6 million increase in general and administrative expenses was primarily attributable to increased employee compensation and benefits, costs associated with the Company's business development initiatives and legal expenses incurred to protect against infringement of the Company's patents and trademarks.

Research and development expenses were $3.2 million for the three months ended June 30, 1996 as compared to $2.3 million for the same period in the prior year. The increase in research and development costs was attributable to increased personnel and operating expenses.

Six month periods ended June 30, 1996 and 1995:

For the six months ended June 30, 1996, net sales increased 26% to $345.1 million compared to $274.7 million for the same period in the prior year. This increase was primarily attributable to increased sales of Great Big Bertha(R) Drivers and Great Big Bertha(R) Fairway Woods.

For the six months ended June 30, 1996, gross profit increased to $179.7 million from $140.3 million for the same period in the prior year and gross margin increased to 52% from 51%. The increase in gross margin was primarily the result of decreases in material costs and manufacturing labor and overhead costs related to increased production volume.

Selling expenses increased to $40.0 million from $36.7 million for the six months ended June 30, 1996 compared to the same period in the prior year. As a percentage of net sales, selling expenses in the first half of 1996 decreased to 12% from 13% for the same period in 1995. The decrease as a percentage of net sales was primarily attributable to costs being spread over a larger sales volume.

General and administrative expenses for the six months ended June 30, 1996 increased to $42.1 million from the $27.9 million incurred during the six months ended June 30, 1995. The $14.2 million increase was primarily attributable to increased employee compensation and benefits, costs associated with the Company's business development initiatives and increases in charitable contributions, computer support, legal and depreciation expenses.

Research and development expenses were $6.4 million for the six months ended June 30, 1996 as compared to $4.3 million for the same period in the prior year. The increase in research and development costs is attributable to increased personnel and operating expenses.

Certain Factors Affecting Callaway Golf Company

The Company believes that the growth rate in the golf equipment industry in the United States has been modest for the past several years, and this trend is likely to continue through 1996. Sales of all golf clubs in Japan, the world's second largest consumer of golf clubs next to the United States, appear to be stabilizing during 1996 after a decline prior to 1996. Although demand for the Company's products has been generally strong throughout this period, no assurances can be given that the demand for the Company's existing products or the introduction of new products will continue to permit the Company to experience its historical growth or maintain its historical profit margin. Additionally, given the Company's current size and market position, it is possible that further market penetration will prove more difficult.

In the golf equipment industry, sales to retailers are generally seasonal due to lower demand in the retail market in the cold weather months covered by the fourth and first quarters. Although the Company's business generally follows this seasonal trend, the success of the Company over the past several years has tended to mitigate the impact of seasonality on the Company's operating results. Beginning in the current year, the Company expects that its operating results will be more significantly affected by seasonal buying trends.

The market in which the Company does business is highly competitive, and is served by a number of well established and well financed companies with recognized brand names. Several companies introduced new products in 1996 (e.g. Ping "ISI" irons, Taylor Made "Burner Bubble Shaft" irons and Cobra "Ti" titanium metal woods) that have generated increased market competition. Others increased their marketing activities with respect to existing products in 1996. While the Company believes that its products and its marketing efforts continue to be competitive, there can be no assurance that these actions by others will not negatively impact the Company's future sales. Additionally, the golf club industry, in general, has been characterized by widespread imitation of popular club designs. A manufacturer's ability to compete is in part dependent upon its ability to satisfy various subjective requirements of golfers, including the golf club's look and "feel," and the level of acceptance that the golf club has among professional and other golfers. The subjective preferences of golf club purchasers may also be subject to rapid and unanticipated changes. There can be no assurance as to how long the Company's golf clubs will maintain market acceptance.

The Company began shipping significant quantities of its Great Big Bertha(R) Drivers in March 1995, and began shipping Great Big Bertha(R) Fairway Woods in March of 1996. This product line is an important part of the Company's business. Great Big Bertha(R) Metal Woods have a titanium club head and are priced substantially higher than the Company's stainless steel product line. The Company currently has three sources for its titanium club heads, but is currently receiving the vast majority of its club heads from two vendors. While the Company has been successful thus far in acquiring adequate quantities of high quality titanium castings at acceptable prices, there is no guarantee that its current suppliers will continue to meet those needs and/or new suppliers will be identified. Several of the Company's competitors have introduced or announced plans to introduce their own titanium metal wood products at substantially lower wholesale prices. These new products will increase the competitive pressure on the Company's future titanium

metal wood sales.

The Company believes that the introduction of new, innovative golf equipment will be important to its future success. New models and basic design changes are frequently introduced into the golf equipment market but are often met with consumer rejection. Although the Company has achieved certain successes in the introduction of its golf clubs, no assurances can be given that the Company will be able to continue to design and manufacture golf clubs that achieve market acceptance. In addition, prior successful designs may be rendered obsolete within a relatively short period of time as new products are introduced into the market. The design of new golf equipment is also greatly influenced by rules and interpretations of the United States Golf Association ("USGA"). Although the golf equipment standards established by the USGA generally apply only to competitive events sanctioned by that organization, it has become critical for designers of new clubs to assure compliance with USGA standards. While the Company believes that all of its clubs comply with USGA standards, no assurance can be given that any new products will receive USGA approval or that existing USGA standards will not be altered in ways that adversely affect the sales of the Company's products.

In May 1996, the Company announced its plans to enter the golf ball business. In June 1996, the Company formed Callaway Golf Ball Company ("CGB"), a wholly owned subsidiary of Callaway Golf Company. To date, the Company has not introduced a golf ball product and it is uncertain if and when a successful golf ball product will be achieved. At this time, it has not been determined whether CGB will enter the golf ball business by developing a new product, by acquiring an existing golf ball manufacturer, by participating in a joint venture with another company, or by a combination of these factors. As the golf ball business is in early stages of development, the impact of this new business on the Company's future cash flow and income from operations cannot be determined. The Company believes that factors affecting the golf equipment industry described above, including growth rate in the golf equipment industry, seasonality and new product introduction will apply equally to the golf ball business. There can be no assurance if and when a successful golf ball product will be developed. In addition, the golf ball business is highly competitive with a number of well established and well financed competitors including Titleist, Spalding, Maxfli, Bridgestone and others. These competitors have established market share in the golf ball business which will need to be penetrated in order for the Company's golf ball business to be successful.

The Company is dependent on a limited number of suppliers for its club heads and shafts. In addition, some of the Company's products require specifically developed techniques and processes which make it difficult to identify and utilize alternative suppliers quickly. Consequently, if any significant delay or disruption in the supply of these component parts occurs, it may have a material adverse effect on the Company's business.

The Company has an active program of enforcing its proprietary rights against companies and individuals who market or manufacture counterfeits and "knock off" products, and aggressively asserts its rights against infringers of its patents, trademarks, and trade dress. However, there is no assurance that these efforts will reduce the level of acceptance obtained by these infringers. Additionally, there can be no assurance that other golf club manufacturers will not be able to produce successful golf clubs which imitate the Company's designs without infringing any of the Company's patents, trademarks, or trade dress.

During 1995 there was an increase in unauthorized distribution of the Company's products (i.e. product sold by the Company to authorized distributors being ultimately sold at retail by unauthorized distributors). The Company is making further efforts to reduce this unauthorized distribution of its products in both domestic and international markets. While efforts to reduce unauthorized distribution have had only limited success to date, these efforts could result in an increase in sales returns over historical levels, and/or a potential decrease in sales to those customers who are selling Callaway(R) products to unauthorized distributors.

An increasing number of the Company's competitors have, like the Company itself, sought to obtain patent, trademark or other protection of their proprietary rights and designs. From time to time others have or may contact the Company to claim that they have proprietary rights which have been infringed by the Company and/or its products. The Company evaluates any such claims and, where appropriate, has obtained or sought to obtain licenses or other business arrangements. To date, there have been no interruptions in the Company's business as the result of any claims of infringement. However, no assurance can be given that the Company will not be adversely affected by the assertion of intellectual property rights belonging to others. This effect could include alteration of existing products, withdrawal of existing products and delayed introduction of new products. Such effect may have a material adverse impact on the

Company.

During 1995, the Company established a department to evaluate opportunities in and outside of the golf equipment industry. Such ventures will present new challenges for the Company and there can be no assurance that this activity will be successful. One of the opportunities identified by this department relates to the Company's acquisition of selected foreign distributors. The Company's management believes that controlling the distribution of its products in these areas will be a key element in the future growth and success of the Company. Executing this business strategy has and will result in additional investments in inventory, accounts receivable, corporate infrastructure and facilities. There can be no assurance that the acquisition of the Company's foreign distributors will achieve these stated goals.

Liquidity and Capital Resources

At June 30, 1996, cash and cash equivalents increased to $105.9 million from $59.2 million at December 31, 1995, due to $50.2 million provided by operating activities and $8.8 million provided by financing activities primarily related to $8.8 million in stock option exercises. These increases were offset by $12.3 million used in investing activities associated with capital expenditures. The Company has available a $50.0 million line of credit and anticipates that its existing capital resources and cash flow generated from future operations will enable it to maintain its current level of operations and its planned operations for the foreseeable future.

The Company's net accounts receivable increased to $88.9 million at June 30, 1996 from $73.9 million at December 31, 1995 and $58.3 million at June 30, 1995, primarily as a result of the increase in net sales. Net inventory was $77.2 million at June 30, 1996 compared to $51.6 million at December 31, 1995 and $63.5 million at June 30, 1995. The increase in inventory levels at June 30, 1996 is consistent with historical seasonality trends. Component costs related to the Great Big Bertha(R) product line which are higher in relation to other product lines also contributed to the increase in inventory.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

The Company, incident to its business activities, is the plaintiff in several legal proceedings, both domestically and abroad, in various stages of development. In conjunction with the Company's program of enforcing its proprietary rights, the Company has initiated a number of actions against alleged infringers under the Lanham Act, 15 USCA Sections 1051-1127, the U.S. Patent Act, 35 USCA Sections 1-376, and other pertinent laws. Some defendants in these actions have, among other things, contested the validity and/or the enforceability of some of the Company's patents and/or trademarks. Others have asserted counterclaims against the Company. The Company believes that the outcome of these matters individually and in the aggregate will not have a material adverse effect upon the financial position or results of operations of the Company. It is possible, however, that in the future one or more defenses or claims asserted by defendants in those actions may succeed, resulting in the loss of all or part of the rights under one or more patents, loss of a trademark, a monetary award against the Company, or some other loss to the Company. One or more of these results could adversely affect the Company's overall ability to protect its product designs and ultimately limit its future success in the market place.

In addition, the Company from time to time receives information claiming that products sold by the Company infringe or may infringe patent or other intellectual property rights of third parties. To date, the Company has not experienced any material expense or disruption associated with any such potential infringement matters. It is possible, however, that in the future one or more claims of potential infringement could lead to litigation, the need to obtain additional licenses, the need to alter a product to avoid infringement, or some other action or loss by the Company.

On May 30, 1996, a lawsuit was filed against Callaway Golf Company and two of its officers by a former officer of the Company, captioned Glenn Schmidt v. Callaway Golf Company, et al., Case No. N 71548, in the Superior Court for the State of California, County of San Diego. On July 10, 1996, the defendants removed the case to the United States District Court for the Southern District of California, Case No. 961235 B AJB where it currently remains subject to possible remand to the state court. The lawsuit asserts claims for breach of oral contract, fraud, negligent misrepresentation, declaratory judgment, rescission, restitution and accounting, arising out of an alleged oral promise in connection with the assignment of a patent for certain tooling designs. The complaint seeks damages of $290,000,000, a royalty of $27,000,000, or compensatory damages for breach of the alleged oral contract, as well as unspecified punitive damages and costs. The Company believes that it has good and valid defenses to the claims, is vigorously defending the suit, and has asserted its own counterclaims for breach of fiduciary duty, fraud and negligent misrepresentation.

The Company and its subsidiaries, incident to their business activities, from time to time are parties to a number of legal proceedings in various stages of development, including but not limited to those described above. The Company believes that the majority of these proceedings involve matters as to which liability, if any, will be adequately covered by insurance. With respect to litigation outside the scope of applicable insurance coverage and to the extent insured claims may exceed liability limits, it is the opinion of the management of the Company that these matters individually and in the aggregate will not have a material adverse effect upon the Company.

Item 2. Changes in Securities:

None

Item 3. Defaults Upon Senior Securities:

None

Item 4. Submission of Matters to a Vote of Security Holders:

On April 18, 1996, the Company held its annual shareholders meeting at the Company's headquarters in Carlsbad, California. Ely Callaway, Donald H. Dye, Michael Sherwin, Elmer Ward, William C. Baker, Richard Rosenfield, William A. Schreyer and Frederick R. Port were elected to the Board of Directors. Additionally, the

adoption of the Company's 1996 Stock Option Plan was approved.

The voting results for the directors were as follows:

Name	Votes For	Votes Withheld
Ely Callaway	62,457,602	948,734
Donald H. Dye	62,469,971	936,365
Michael Sherwin	62,732,070	674,266
Elmer Ward	60,902,300	2,504,036
William C. Baker	62,771,119	635,217
Richard Rosenfield	62,770,683	635,653
William A. Schreyer	62,720,007	686,329
Frederick R. Port	62,476,824	929,512

The voting results for the Callaway Golf Company 1996 Stock Option Plan were as follows:

Votes For	Votes Against	Abstain	Broken Non-Vote
50,439,884	12,135,588	830,864	-0-

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K:

a. Exhibits:

3.2	Bylaws of the Company (as amended through May 10, 1996)/(1)/
10.9	Officer Employment Agreement by and between the Company and Charles Yash dated May 10, 1996.
10.15	Callaway Golf Company Non-Employee Directors Stock Option Plan (as Amended and Restated April 17, 1996)
10.17	Stock Option Agreement by and between the Company and Charles Yash/(2)/
11.1	Statement re: Computation of Earnings Per Common Share
27	Financial Data Schedule

/(1)/ Included as an exhibit to the Company's Registration Statement on Form S-8 (No. 333-5719) for its 1996 Stock Option Plan as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.

/(2)/ Included as an exhibit in the Company's Registration Statement on Form S-8 (No. 333-5721) for the Stock Option Agreement by and between the Company and Charles Yash as filed with the Securities and Exchange Commission on June 11, 1996, and incorporated herein by reference.

b. Reports on Form 8-K:
None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALLAWAY GOLF COMPANY

Date: August 13, 1996

/s/ Donald H. Dye

DONALD H. DYE
President
Chief Executive Officer

/s/ David A. Rane

DAVID A. RANE
Executive Vice President
Chief Financial Officer

OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") is entered into as of May 10, 1996, by and between Callaway Golf Company, a California corporation (the "Company"), and Charles Yash ("Employee").

1. TERM. The Company hereby employs Employee and Employee hereby accepts employment pursuant to the terms and provisions of this Agreement for the term commencing May 15, 1996 and terminating May 14, 2001 unless this Agreement is earlier terminated as hereinafter provided. Unless such employment is earlier terminated, upon the expiration of the term of this Agreement, Employee's status shall be one of at will employment.

2. SERVICES.

(a) Employee shall serve as President and Chief Executive Officer of Callaway Golf Ball Company (a wholly-owned subsidiary or a division of Callaway Golf Company, to be formed). Employee shall report to Ely Callaway, Chairman and CEO of the Company, who will serve as Chairman of Callaway Golf Ball Company, or his successor. Employee shall also serve on the Board of Directors of Callaway Golf Ball Company, and shall be nominated to serve on the Board of Directors of Callaway Golf Company. Employee's title, position and/or duties may be changed by the Board of Directors and/or the Chief Executive Officer of the Company, subject to the provisions of subsection 8(d).

(b) Employee shall be required to comply with all policies and procedures of the Company, as such shall be adopted, modified or otherwise established by the Company from time to time.

3. SERVICES TO BE EXCLUSIVE. During the term hereof, Employee agrees to devote his or her full productive time and best efforts to the performance of Employee's duties hereunder pursuant to the supervision and direction of the Company's Board of Directors and its Chief Executive Officer. Employee further agrees, as a condition to the performance by the Company of each and all of its obligations hereunder, that so long as Employee is employed by the Company, Employee will not directly or indirectly render services of any nature to, otherwise become employed by, or otherwise participate or engage in any other business without the Company's prior written consent. Employee further agrees to execute such secrecy, non-disclosure, patent, trademark, copyright and other proprietary rights agreements, if any, as the Company may from time to time reasonably require (a copy of the Company's current form for such agreements having been delivered to Employee contemporaneously with this Agreement). Nothing herein contained shall be deemed to preclude Employee from having outside personal investments and involvement with appropriate community activities, and from devoting a reasonable amount of time to such matters, provided that this shall in no manner interfere with or derogate from

Employee's work for the Company.

4. COMPENSATION. The Company agrees to pay Employee:

(a) a base salary at the rate of $500,000.00 per year through April 30, 1999, and at the rate of $600,000.00 per year thereafter;

(b) an opportunity to earn an annual nondiscretionary bonus based upon participation in the Company's Executive Nondiscretionary Bonus Plan as it may exist from time to time; and

(c) an opportunity to earn an annual discretionary bonus based upon participation in the Company's Executive Discretionary Bonus Plan as it may exist from time to time, such discretionary bonus for 1996 not to be less than 50% of Employee's base salary paid in 1996, and otherwise as to later years in amounts established solely in the discretion of the Company.

5. EXPENSES AND BENEFITS.

(a) Reasonable and Necessary Expenses. In addition to the compensation provided for in Section 4 hereof, the Company shall reimburse Employee for all reasonable, customary, and necessary expenses incurred in the performance of Employee's duties hereunder. Employee shall first account for such expenses by submitting a signed statement itemizing such expenses prepared in accordance with the policy set by the Company for reimbursement of such expenses. The amount, nature, and extent of such expenses shall always be subject to the control, supervision, and direction of the Company and its Chief Executive Officer.

(b) Vacation. Employee shall receive four (4) weeks paid vacation for each twelve (12) month period of employment with the Company. The vacation may be taken any time during the year subject to prior approval by the Company, such approval not to be unreasonably withheld. Any unused time will accrue from year to year. The maximum vacation time Employee may accrue shall be three times Employee's annual vacation benefit. The Company reserves the right to pay Employee for unused, accrued vacation benefits in lieu of providing time off.

(c) Benefits. During Employee's employment with the Company pursuant to this Agreement, the Company shall provide for Employee to:

(i) participate in the Company's health insurance and disability insurance plans as the same may be modified from time to time;

(ii) receive, if Employee is insurable under usual underwriting standards, term life insurance coverage on Employee's life, payable to whomever the Employee directs, in the face amount of $2,000,000.00, provided that Employee's

physical condition does not prevent Employee from qualifying for such insurance coverage;

(iii) participate in the Company's 401(k) pension plan pursuant to the terms of the plan, as the same may be modified from time to time;

(iv) participate in the Company's Executive Deferred Compensation Plan, as the same may be modified from time to time; and

(v) participate in the Company's program for providing estate and financial planning services to officers, as the same may be modified from time to time.

(d) Club Membership. The Company shall pay the reasonable cost of initiation associated with Employee gaining privileges at a mutually agreed upon country club. Employee shall be responsible for all other expenses and costs associated with such club use, including monthly member dues and charges. The club membership itself shall belong to and be the property of the Company, not Employee.

(e) Signing Bonus. Company shall pay Employee a one-time signing bonus of $600,000.00, of which $200,000.00 is to be paid to Employee on the date Employee actually commences employment or the execution date of this Agreement, whichever is later. The remaining $400,000.00 shall be deferred, without exception or change, pursuant to the Company's Executive Deferred Compensation Plan and in accordance with Employee's Enrollment Form in such Plan completed contemporaneously with the execution of this Agreement.

(f) Stock Options. Pursuant to a separate stock option agreement, the Company shall provide to Employee options to purchase up to 600,000 shares of the Common Stock of the Company in accord with the following pricing and vesting schedule ("Start Date" means the date on which Employee actually commences employment with the Company or the date upon which he signs this Agreement whichever, occurs first.):

SHARES	VESTING DATE	PRICE
200,000	Start Date	Base Price (the closing price on the NYSE on Start Date, as reported in the Wall Street Journal)
100,000	Start Date + One Year	Base Price
100,000	Start Date + Two Years	Base Price
100,000	Start Date + Three Years	Base Price
100,000	Start Date + Four Years	Base Price

All shares of stock that are issuable upon the exercise of such options granted to

Employee shall be registered as promptly as possible with the Securities and Exchange Commission, and shall be approved for listing on the New York Stock Exchange upon notice of issuance.

6. DISABILITY. If on account of any physical or mental disability Employee shall fail or be unable to perform all or substantially all of Employee's duties under this Agreement for a continuous period of up to six (6) months during any twelve month period during the term of this Agreement, Employee shall be entitled to his or her full compensation and benefits as set forth in this Agreement. If Employee's disability continues after such six (6) month period, this Agreement is subject to termination pursuant to the provisions of Section 8(e) hereof.

7. NONCOMPETITION.

(a) Other Business. To the fullest extent permitted by law, Employee agrees that during the term of this Agreement Employee will not, directly or indirectly (whether as agent, consultant, holder of a beneficial interest, creditor, or in any other capacity), engage in any business or venture which engages directly or indirectly in competition with the business of the Company, or have any interest in any person, firm, corporation, or venture which engages directly or indirectly in competition with the business of the Company. For purposes of this section, and by way of example, the ownership of the common stock of American Brands, parent corporation of Titleist, would be a violation of this subsection, while the ownership of interests in a broadly based mutual fund that holds the common stock of American Brands would not.

(b) Other Employees. Except as may be required in the performance of his or her duties hereunder, Employee shall not cause or induce, or attempt to cause or induce, any person now or hereafter employed by the Company, or any subsidiary, to terminate such employment, nor shall Employee directly or indirectly employ any person who is now or hereafter employed by the Company for a period of one (1) year from the date such person ceases to be employed by the Company.

(c) Suppliers. During the term of this Agreement, and for one (1) year thereafter, Employee shall not cause or induce, or attempt to cause or induce, any person or firm supplying goods, services or credit to the Company to diminish or cease furnishing such goods, services or credit.

(d) Conflict of Interest. During the term of this Agreement, Employee shall not engage in any conduct or enterprise that shall constitute an actual or apparent conflict of interest with respect to Employee's duties and obligations to the Company.

8. TERMINATION.

(a) Termination at the Company's Convenience. Employee's employment under this Agreement may be terminated by the Company at its convenience at any time upon giving 90 days or longer notice to Employee. In the event of a termination at the Company's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to either (a) the remainder of the term of this Agreement or (b) six months, whichever is greater; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iv) the immediate vesting of all unvested stock options held by Employee that would have vested had the Employee remained employed pursuant to this Agreement for a period of time equal to the greater of the remainder of the term of this agreement or six months; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to either (a) the remainder of the term of this Agreement or (b) six months, whichever is greater; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(b) Termination at Employee's Convenience. Employee's employment under this Agreement may be terminated immediately by Employee at his or her convenience at any time. In the event of a termination at the Employee's convenience, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance.

(c) Termination by the Company for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by the Company for substantial cause at any time. In the event of a termination by the Company for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time

and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; and (iii) no other severance. "Substantial cause" shall mean for purposes of this subsection breach of this Agreement, or misconduct, including but not limited to, dishonesty, theft, use or possession of drugs or alcohol during work and/or felony criminal conduct.

(d) Termination by Employee for Substantial Cause. Employee's employment under this Agreement may be terminated immediately by Employee for substantial cause at any time. In the event of a termination by Employee for substantial cause, Employee shall be entitled to receive (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) the payment of nondiscretionary bonuses pursuant to the Company's Executive Bonus Plan, as it existed on the date of termination, for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iv) the immediate vesting of all unvested stock options held by Employee that would have vested had the Employee remained employed pursuant to this Agreement for a period of time equal to the greater of the remainder of the term of this agreement or six months; (v) the continuation of all benefits and perquisites provided by Sections 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or six months; and (vi) no other severance. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this subsection in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination. "Substantial cause" shall mean for purposes of this subsection a material breach of this Agreement by the Company or a change in Employee's position or title to a status that is lower in standing than that of Senior Executive Vice President of the Company or President of a subsidiary or division of the Company.

(e) Termination Due to Permanent Disability. Subject to all applicable laws, Employee's employment under this Agreement may be terminated immediately by the Company in the event Employee becomes permanently disabled. In the event of a termination by the Company due to Employee's permanent disability, Employee shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by

Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; (v) the continuation of all benefits and perquisites provided by Section 5(c)(i) and (ii) hereof for a period of time equal to the greater of the remainder of the term of this Agreement or six months; and (vi) no other severance. Termination under this subsection shall be effective immediately upon the date the Board of Directors of the Company formally resolves that Employee is permanently disabled. Subject to all applicable laws, "permanent disability" shall mean the inability of Employee, by reason of any ailment or illness, or physical or mental condition, to devote substantially all of his or her time during normal business hours to the daily performance of Employee's duties as required under this Agreement for a continuous period of six (6) months, as reflected in the opinions of three qualified physicians, one of which has been selected by the Company, one of which has been selected by Employee, and one of which has been selected by the other two physicians, jointly. At Employee's option, Employee may elect in writing up to 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(f) Termination Due to Death. Employee's employment under this Agreement may be terminated immediately by the Company in the event of Employee's death. In the event of a termination by the Company due to Employee's death, Employee's estate shall be entitled to (i) any compensation accrued and unpaid as of the date of termination; (ii) the continued payment of base salary at the same rate and on the same schedule as in effect at the time of termination for a period of time equal to the greater of the remainder of the term of this Agreement or six months; (iii) severance pay equal to the nondiscretionary cash bonus Employee would have earned under the then existing Executive Bonus Plan in the fiscal year in which Employee's employment is terminated, prorated in accordance with the number of days in such fiscal year that elapsed prior to Employee's termination and payable at the same time and under the same terms and conditions as any other nondiscretionary bonuses paid to officers in that fiscal year; (iv) the immediate vesting of outstanding but unvested stock options held by Employee as of such termination date in a prorated amount based upon the number of days in the option vesting period that elapsed prior to Employee's termination; and (v) no other severance. At Employee's option, Employee may elect in writing at least 60 days prior to termination to receive such payments and benefits as provided by subsection (ii) of this section in a lump sum payment representing all future payments due, discounted to their then present value at the prevailing major bank prime rate as of the date of termination.

(g) Unless otherwise provided, any severance payments or other amounts due pursuant to this Section 8 shall be paid in cash within thirty (30) days of termination. Any severance payments shall be subject to usual and customary employee payroll practices and all applicable withholding requirements. Except for such severance pay and other amounts specifically provided pursuant to this Section 8,

Employee shall not be entitled to any further compensation, bonus, damages, restitution, relocation benefits, or other severance benefits upon termination of employment during the term of this Agreement. The amounts payable to Employee pursuant to this Section 8 shall not be treated as damages, but as severance compensation to which Employee is entitled by reason of termination of employment under the applicable circumstances. The Company shall not be entitled to set off against the amounts payable to Employee hereunder any amounts earned by Employee in other employment after termination of his or her employment with the Company pursuant to this Agreement, or any amounts which might have been earned by Employee in other employment had Employee sought such other employment. The provisions of this Section 8 shall not limit Employee's rights under or pursuant to any other agreement or understanding with the Company or with Employee's participation in, or terminating distributions and vested rights under, any pension, profit sharing, insurance or other employee benefit plan of the Company to which Employee is entitled pursuant to the terms of such plan.

(h) Termination By Mutual Agreement of the Parties. Employee's employment pursuant to this Agreement may be terminated at any time upon the mutual agreement in writing of the parties. Any such termination of employment shall have the consequences specified in such agreement.

(i) Pre-Termination Rights. The Company shall have the right, at its option, to relieve Employee of his or her duties and/or to require Employee to vacate his or her office or otherwise remain off the Company's premises prior to the effective date of termination as determined above, and to cease any and all activities on the Company's behalf.

9. RIGHTS UPON A CHANGE IN CONTROL.

(a) If a Change in Control (as defined in Exhibit A hereto) occurs before the termination of Employee's employment hereunder, then this Agreement shall be extended (the "Extended Employment Agreement") in the same form and substance as in effect immediately prior to the Change in Control, except that the termination date shall be that date which would permit the Extended Employment Agreement to continue in effect for an additional period of time equal to the full term of this Agreement.

(b) Notwithstanding anything in this Agreement to the contrary, if upon or at any time within one year following any Change in Control that occurs during the term of this Agreement there is a Termination Event (as defined below), Employee shall be treated as if he or she had been terminated for the convenience of the Company and Employee shall be entitled to receive the same compensation and other benefits and entitlements as are described in Section 8(a) of this Agreement. Furthermore, the termination events and consequences described in Section 8 shall continue to apply during the term of the Extended Employment Agreement except that,

in the event of a conflict between Section 8 and the rights of Employee described in this Section 9, the provisions of this Section 9 shall govern.

(c) A "Termination Event" shall mean the occurrence of any one or more of the following, and in the absence of the Employee's permanent disability (defined in Sections 6 and 8(e)), Employee's death, and any of the factors enumerated in Section 8(c) as providing to the Company "substantial cause" for terminating Employee's employment:

(i) the termination or material breach of this Agreement by the Company;

(ii) a failure by the Company to obtain the assumption of this Agreement by any successor to the Company or any assignee of all or substantially all of the Company's assets;

(iii) any material diminishment in the title, position, duties, responsibilities or status that Employee had with the Company, as a publicly traded entity, immediately prior to the Change in Control;

(iv) any reduction, limitation or failure to pay or provide any of the compensation, reimbursable expenses, stock options, incentive programs, or other benefits or perquisites provided to Employee under the terms of this Agreement or any other agreement or understanding between the Company and Employee, or pursuant to the Company's policies and past practices as of the date immediately prior to the Change in Control; or

(v) any requirement that Employee relocate or any assignment to Employee of duties that would make it unreasonably difficult for Employee to maintain the principal residence he or she had immediately prior to the Change in Control.

10. SURRENDER OF BOOKS AND RECORDS. Employee agrees that upon termination of employment in any manner, Employee will immediately surrender to the Company all lists, books and records of or connected with the business of the Company, and all other properties belonging to the Company, it being distinctly understood that all such lists, books, records and other documents are the property of the Company.

11. GENERAL RELATIONSHIP. Employee shall be considered an employee of the Company within the meaning of all federal, state and local laws and regulations, including, but not limited to, laws and regulations governing unemployment insurance, workers' compensation, industrial accident, labor and taxes.

12. PROPRIETARY INFORMATION.

(a) Employee agrees that any trade secret or proprietary information of the Company to which Employee has become privy or may become privy to as a result of his or her employment with the Company shall not be divulged or disclosed to any other party (including, without limit, any person or entity with whom or in whom Employee has a business interest) without the express written consent of the Company, except as otherwise required by law. In addition, Employee agrees to use such information only during the term of this Agreement and only in a manner which is consistent with the purposes of this Agreement. In the event Employee believes that he or she is legally required to disclose any trade secret or proprietary information of the Company, Employee shall give reasonable notice to the Company prior to disclosing such information and shall take such legally permissible steps as are reasonably necessary to protect such Company trade secrets or proprietary information, including but not limited to, seeking orders from a court of competent jurisdiction preventing disclosure or limiting disclosure of such information beyond that which is legally required. The Company shall reimburse Employee for reasonable legal expenses incurred in seeking said orders.

(b) Except as otherwise required by law, Employee shall hold in confidence all trade secret and proprietary information received from the Company until such information is available to the public generally or to the Company's competitors through no unauthorized act or fault of Employee. Upon termination of this Agreement, Employee shall promptly return any written proprietary information in his or her possession to the Company.

(c) As used in this Agreement, "trade secret and proprietary information" means information, whether written or oral, not generally available to the public; it includes the concepts and ideas involved in the Company's products whether patentable or not; and includes, but is not limited to, the processes, formulae, and techniques disclosed by the Company to Employee or observed by Employee. It does not include:

(i) Information, which at the time of disclosure, had been previously published.

(ii) Information which is published after disclosure, unless such publication is a breach of this Agreement or is otherwise a violation of the contractual, legal or fiduciary duties owed to the Company, which violation is known to Employee; or

(iii) Information which, subsequent to disclosure, is obtained by Employee from a third person who is lawfully in possession of such information (which information is not acquired in violation of any contractual, legal, or fiduciary obligation owed to the Company with respect to such information, and is known by

Employee) and does not require Employee to refrain from disclosing such information to others.

(d) The provisions of this Section 12 shall survive the termination or expiration of this Agreement, and shall be binding upon Employee in perpetuity.

13. INVENTIONS AND INNOVATIONS.

(a) As used in this Agreement, inventions and innovations mean new ideas and improvements, whether or not patentable, relating to the design, manufacture, use or marketing of golf equipment or other products of the Company. This includes, but is not limited to, products, processes, methods of manufacture, distribution and management, sources of and uses for materials, apparatus, plans, systems and computer programs.

(b) Employee agrees to disclose to the Chief Executive Officer and the Board of Directors of the Company any invention or innovation which he or she develops, either alone or with anyone else, during the term of Employee's employment with the Company, as well as any invention or innovation based on proprietary information of the Company which Employee develops, whether alone or with anyone else, within twelve (12) months after the termination of Employee's employment with the Company.

(c) Employee agrees to assign any invention or innovation to the Company:

(i) which is developed totally or partially while Employee is employed by the Company;

(ii) for which Employee used any of the Company's equipment, supplies, facilities or proprietary information, even if any or all of such items are relatively minor, and have little or no monetary value; or

(iii) which results in any way from Employee's work for the Company or relates in any way to the Company's business or the Company's current or anticipated research and development.

(d) Employee understands and agrees that the existence of any condition set forth in either (c)(i), (ii) or (iii) above is sufficient to require Employee to assign his or her inventions or innovations to the Company.

(e) All provisions of this Agreement relating to the assignment by Employee of any invention or innovation are subject to the provisions of California Labor Code Sections 2870, 2871 and 2872.

(f) Employee agrees that any invention or innovation which is required under the provisions of this Agreement to be assigned to the Company shall be the sole and exclusive property of the Company. Upon the Company's request, at no expense to Employee, Employee shall execute any and all proper applications for patents, assignments to the Company, and all other applicable documents, and will give testimony when and where requested to perfect the title and/or patents (both within and without the United States) in all inventions or innovations belonging to the Company.

(g) Employee shall disclose all inventions and innovations to the Company, even if Employee does not believe that he or she is required under this Agreement, or pursuant to California Labor Code Section 2870, to assign his or her interest in such invention or innovation to the Company. If the Company and Employee disagree as to whether or not an invention or innovation is included within the terms of this Agreement, it will be the responsibility of Employee to prove that it is not included.

14. ASSIGNMENT. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the successors and assigns of the Company. Employee shall have no right to assign his rights, benefits, duties, obligations or other interests in this Agreement, it being understood that this Agreement is personal to Employee.

15. ATTORNEYS' FEES AND COSTS. If any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute or default in connection with any of its provisions, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees incurred in such action or proceeding, in addition to any relief to which such party may be deemed entitled, if, and only if, the arbitrator finds that the non-prevailing party's position, taken as a whole, was frivolous or baseless. The prevailing party in any such proceeding shall be entitled to recover from the other party the reasonable costs and expenses of any such proceeding (not including attorneys' fees).

16. ENTIRE UNDERSTANDING. This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof, and no other representations, warranties or agreements whatsoever as to that subject matter have been made by Employee or the Company not herein contained. This Agreement shall not be modified, amended or terminated except by another instrument in writing executed by the parties hereto. This Agreement replaces and supersedes any and all prior understandings or agreements between Employee and the Company regarding employment.

17. NOTICES. Any notice, request, demand, or other communication required or permitted hereunder, shall be deemed properly given when actually received or within five (5) days of mailing by certified or registered mail, postage prepaid, to:

Employee: Charles Yash
P. O. Box 2621
Rancho Santa Fe, CA 92067

Company: Callaway Golf Company
2285 Rutherford Road
Carlsbad, California 92008-8815
Attn: Donald H. Dye

or to such other address as Employee or the Company may from time to time furnish, in writing, to the other.

18. ARBITRATION. Any dispute, controversy or claim arising hereunder or in any way related to this Agreement, its interpretation, enforceability, or applicability, or relating to Employee's employment, or the termination thereof, that cannot be resolved by mutual agreement of the parties shall be submitted to arbitration. The arbitration shall be conducted by a retired judge from the Judicial Arbitration and Mediation Service/Endispute ("JAMS") office located in Orange County, California, who shall have the powers to hear motions, control discovery, conduct hearings and otherwise do all that is necessary to resolve the matter. The arbitration award shall be final and binding, and judgment on the award may be entered in any court having jurisdiction thereof. It is expressly understood that the parties have chosen arbitration to avoid the burdens, costs and publicity of a court proceeding, and the arbitrator is expected to handle all aspects of the matter, including discovery and any hearings, in such a way as to minimize the expense, time, burden and publicity of the process, while assuring a fair and just result. In particular, the parties expect that the arbitrator will limit discovery by controlling the amount of discovery that may be taken (e.g., the number of depositions or interrogatories) and by restricting the scope of discovery to only those matters clearly relevant to the dispute.

19. MISCELLANEOUS.

(a) Headings. The headings of the several sections and paragraphs of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any term or provision hereof.

(b) Waiver. Failure of either party at any time to require performance by the other of any provision of this Agreement shall in no way affect that party's rights thereafter to enforce the same, nor shall the waiver by either party of any breach of any provision hereof be held to be a waiver of any succeeding breach of any provision or a waiver of the provision itself.

(c) Applicable Law. This Agreement shall constitute a contract

under the internal laws of the State of California and shall be governed and construed in accordance with the laws of said state as to both interpretation and performance.

(d) Severability. In the event any provision or provisions of this Agreement is or are held invalid, the remaining provisions of this Agreement shall not be affected thereby.

20. TRADE SECRETS OF OTHERS

It is the understanding of both the Company and Employee that Employee shall not divulge to the Company any confidential information or trade secrets belonging to others, including Employee's former employers, nor shall the Company seek to elicit from Employee any such information. Consistent with the foregoing, Employee shall not provide to the Company, and the Company shall not request, any documents or copies of documents containing such information.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective the date first written above.

EMPLOYEE:

/s/CHARLES YASH
Charles Yash

COMPANY:
CALLAWAY GOLF COMPANY,
a California corporation

By: /s/ELY CALLAWAY
Ely Callaway, Chairman and CEO

By: /s/DONALD H. DYE
Donald H. Dye, President and COO

EXHIBIT A

A "Change in Control" means the following and shall be deemed to occur if any of the following events occurs:

(a) Any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") but excluding the Company and its subsidiaries and any employee benefit or stock ownership plan of the Company or its subsidiaries and also excluding an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof (such person, entity or group being referred to herein as a "Person") becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

(b) Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's shareholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, 20% or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's shareholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(c) Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than

(i) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing 5% or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity,

more than 50% of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation), or

(ii) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

(d) Approval by the shareholders of the Company or an order by a court of competent jurisdiction of a plan of liquidation of the Company.

CALLAWAY GOLF COMPANY
NON-EMPLOYEE DIRECTORS STOCK OPTION PLAN

(As Amended and Restated April 17, 1996)

ARTICLE I
GENERAL

1. Adoption. This Callaway Golf Company Non-Employee Directors Stock Option Plan (the "Plan") is effective as of September 1, 1992, subject to approval by the Board of Directors and shareholders of Callaway Golf Company (the "Company").

2. Purpose. The Plan is designed to promote the interests of the Company and its shareholders by using investment interests in the Company to attract and retain highly qualified independent directors.

3. Administration. The Plan shall be administered by the Company, which shall have the power to construe the Plan, to determine all questions arising under the Plan, to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable, and otherwise to carry out the terms of the Plan. The interpretation and construction by the administrator of any provisions of the Plan or of any option granted under the Plan shall be final. Notwithstanding the foregoing, the administrator shall have no authority or discretion as to the selection of persons eligible to receive options granted under the Plan, the number of shares covered by options granted under the Plan, the timing of such grants, or the exercise price of options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

4. Eligible Directors. A person shall be eligible to receive grants of options under this Plan (an "Eligible Director") if, at the time of the option's grant, he or she is a duly elected or appointed member of the Company's Board of Directors, but is not then otherwise an employee of the Company or any of its subsidiaries or affiliates and has not been an employee of the Company or any of its subsidiaries or affiliates since the beginning of the Company's preceding fiscal year.

5. Shares of Common Stock Subject to the Plan and Grant Limit. The shares that may be issued upon exercise of options granted under the Plan shall be authorized and unissued shares of the Company's Common Stock. The aggregate number of shares that may be issued upon exercise of options granted under the Plan shall not exceed 840,000 shares of Common Stock, subject to adjustment in accordance with Article III, and no individual may

receive options under the Plan to purchase more than 120,000 shares of the Company's Common Stock, subject to adjustment in accordance with Article III.

6. Amendment of the Plan. The Company's Board of Directors may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except that no such amendment shall alter or impair or diminish any rights or obligations under any option theretofore granted under the Plan without the consent of the person to whom such option was granted. In addition, without further shareholder approval, the Plan may not be amended so as to increase the number of shares subject to the Plan (as adjusted under Article III), increase the number of shares for which an option or options may be granted to any optionee (as adjusted under Article III), change the class of persons eligible to receive options under the Plan, provide for the grant of options having an exercise price per option share less than the exercise price specified in the Plan, or extend the final date upon which options may be granted under the Plan. Under no circumstances may the provisions of the Plan that provide for the amounts, price, and timing of option grants be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, ERISA, or the rules thereunder.

7. Term of Plan. Options may be granted under the Plan until September 1, 2002, whereupon the Plan will terminate. Notwithstanding the foregoing, each option granted under the Plan shall remain in effect until such option has been exercised or terminated in accordance with its terms and the terms of the Plan.

8. Grants Before Shareholder Approval. Option grants made before this Plan has been approved by the Company's shareholders shall be made subject to and effective only upon such approval.

9. Restrictions. All options granted under the Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to options granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an option or the issuance, if any, or purchase of shares in connection therewith, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10. Nonassignability. No option granted under the Plan shall be assignable or transferable by the grantee except by will or by the laws of

descent and distribution or pursuant to a qualified domestic relations order (as defined by the Internal Revenue Code of 1986, as amended). During the lifetime of the optionee, the option shall be exercisable only by the optionee, and no other person shall acquire any rights therein.

11. Withholding Taxes. Whenever shares of Common Stock are to be issued upon exercise of an option granted under the Plan, the administrator shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The administrator may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of stock of the Company or by withholding a portion of the Common Stock otherwise issuable upon exercise of an option.

12. Definition of "Fair Market Value." For purposes of the Plan, the term "fair market value," when used in reference to the value of a share of the Company's Common Stock on the date an option is granted under the Plan, shall be: (a) if the Common Stock is listed on an established stock exchange or exchanges, the mean between the highest and lowest sale prices of the Common Stock quoted in the Transactions Index of each such exchange as averaged with such mean price as reported on any and all other exchanges, as published in "The Wall Street Journal" and determined by the Company, or, if no sale price was quoted in any such Index for such date, then as of the next preceding date on which such a sale price was quoted, provided that the mean on such preceding date is not less than 100% of the fair market value of the Common Stock on the date the option is granted; or, (b) if the Common Stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the Common Stock in the over-the-counter market as quoted on NASDAQ on such date; or, (c) if the Common Stock is not then listed on an exchange or quoted on NASDAQ, an amount determined in good faith by the Company.

13. Rights as a Shareholder. An optionee or a transferee of an option shall have no rights as a shareholder with respect to any shares issuable or issued upon exercise of the option until the date of the receipt by the Company of all amounts payable in connection with exercise of the option, including the exercise price and any amounts required by the Company pursuant to Section 11 of Article I.

14. Purchase for Investment. Unless the shares of Common Stock to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933 as now in force or

hereafter amended, the Company shall be under no obligation to issue any shares of Common Stock covered by any option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company which is satisfactory in form and scope to counsel to the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he or she is acquiring the shares of Common Stock issued to him or her pursuant to such exercise of the option for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of Common Stock, and that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if shares of Common Stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued.

ARTICLE II
STOCK OPTIONS

1. Grants of Initial Options.

(a) Each Eligible Director who becomes an Eligible Director in 1992 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price of $2.50 per share, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(b) Each Eligible Director who becomes an Eligible Director from January 1, 1993 through April 17, 1996 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price per share equal to 75% of the fair market value of the Company's Common Stock on the date of his or her election to the Board, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(c) Each Eligible Director who becomes an Eligible Director after April 17, 1996 shall, upon first becoming an Eligible Director, receive a one-time grant of an option to purchase up to 80,000 shares of the Company's Common Stock at an exercise price per share equal to the fair market value of the Company's Common Stock on the date of his or her election to the Board, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III.

(d) Options granted under Sections 1(a), 1(b) and 1(c) of this Article II are "Initial Options" for purposes hereof.

2. Grants of Additional Options. On each even-numbered (i.e. 2nd, 4th, 6th, 8th, 10th) anniversary of an Eligible Director's election to the Board, if the Eligible Director has served as a director since his or her election and is continuing as a director for at least another year, such Eligible Director shall automatically be granted an "Additional Option" to purchase up to 8,000 shares of the Company's Common Stock at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, subject to (i) vesting as set forth in Section 4 of Article II, and (ii) adjustment as set forth in Article III. No individual may receive Additional Options to purchase more than 40,000 shares of the Company's Common Stock pursuant to this subsection.

3. Exercise Price. The option exercise price shall be payable upon the exercise of an option in legal tender of the United States or such other consideration as the administrator may deem acceptable, including without limitation stock of the Company (delivered by or on behalf of the person exercising the option or retained by the Company from the Common Stock otherwise issuable upon exercise), provided, however, that the administrator may, in the exercise of its discretion, (i) allow exercise of an option in a broker-assisted or similar transaction in which the exercise price is not received by the Company until immediately after exercise, and/or (ii) allow the Company to loan the exercise price to the person entitled to exercise the option, if the exercise will be followed by an immediate sale of some or all of the underlying shares and a portion of the sales proceeds is dedicated to full payment of the exercise price. Upon proper exercise, the Company shall deliver to the person entitled to exercise the option or his or her designee a certificate or certificates for the shares of Common Stock to which the option pertains.

4. Vesting and Exercise. Initial Options and Additional Options shall vest and become exercisable 50% upon the first anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the first anniversary thereof, and 50% upon the second anniversary of the grant date, if the optionee has remained an Eligible Director for the entire period from the date of grant to the second anniversary thereof.

5. Option Agreements. Each option granted under the Plan shall be evidenced by an option agreement duly executed on behalf of the Company and by the Eligible Director to whom such option is granted and stating the number of shares of Common Stock issuable upon exercise of the option, the exercise price, the time during which the option is exercisable, and the times at which the options vest and become exercisable. Such option agreements

may but need not be identical and shall comply with and be subject to the terms and conditions of the Plan, a copy of which shall be provided to each option recipient and incorporated by reference into each option agreement. Each option agreement may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the administrator.

6. Term of Options and Effect of Termination. Notwithstanding any other provision of the Plan, no Initial Options or Additional Options shall be exercisable after the expiration of five years from the effective date of their grant. In the event that any outstanding option under the Plan expires by reason of lapse of time or is otherwise terminated without exercise for any reason, then the shares of Common Stock subject to any such option which have not been issued pursuant to the exercise of the option shall again become available in the pool of shares of Common Stock for which options may be granted under the Plan. In the event that the holder of any option granted under this Plan shall cease to be a director of the Company for any reason, all options granted under this Plan to such holder shall be exercisable, to the extent already exercisable at the date such holder ceases to be a director, for a period of 180 days after that date (or, if sooner, until the expiration of the option according to its terms), and shall then terminate. In the event of the death of an optionee while such optionee is a director of the Company or within the period after termination of such status during which he or she is permitted to exercise an option, such option may be exercised by any person or persons designated by the optionee on a Beneficiary Designation Form adopted by the administrator for such purpose or, if there is no effective Beneficiary Designation Form on file with the Company, by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his or her will or the applicable laws of descent and distribution.

ARTICLE III
RECAPITALIZATIONS AND REORGANIZATIONS

1. Anti-dilution Adjustments. The number of shares of Common Stock available for issuance upon exercise of options granted under the Plan, the maximum number of shares for which options granted under the Plan may be exercised by any individual, the number of shares for which each option (issued and unissued) can be exercised, and the exercise price per share of options (issued and unissued) shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of issued and outstanding shares of Common Stock effected without receipt of consideration by the Company. All share amounts and exercise prices set forth in this

amended plan document have been restated to take into account, and give full effect to, any and all stock splits implemented since the adoption and approval of the Plan by shareholders on April 29, 1993 and before April 17, 1996.

2. Corporate Transactions. If the Company shall be the surviving corporation in any merger or consolidation, each outstanding option shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that option would have been entitled. A dissolution or liquidation or change in control of the Company, or a merger or consolidation in which the Company is not the surviving corporation, shall cause each outstanding option to terminate, unless the agreement of merger or consolidation shall otherwise provide; provided that, in the event such dissolution, liquidation, change in control, merger or consolidation will cause outstanding options to terminate, each optionee shall have the right immediately prior to such dissolution, liquidation, merger or consolidation or upon such change in control to exercise his or her option or options in whole or in part without regard to any vesting requirements. For purposes hereof, a "change in control" shall be the acquisition by any person or entity of beneficial ownership of 50% or more of the Company's outstanding voting securities.

3. Determination by the Company. To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the administrator, whose determination in that respect shall be final, binding and conclusive. The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all of any part of its business or assets.

EXHIBIT 11.1

CALLAWAY GOLF COMPANY
COMPUTATION OF EARNINGS PER SHARE

	Three months ended June 30,		Six months ended June 30,	
	1996	1995	1996	1995
	(in thousands, except per share data)			
Primary earnings per share computation:				
Net income	$38,937	$27,329	$58,392	$44,234
Weighted average shares outstanding	66,657	67,132	66,369	67,943
Dilutive options	3,847	2,942	3,680	3,274
Common equivalent shares	70,504	70,074	70,049	71,217
Primary earnings per share:				
Net income	$ .55	$ .39	$ .83	$ .62
Fully diluted earnings per share computation:				
Net income	$38,937	$27,329	$58,392	$44,234
Weighted average shares outstanding	66,657	67,132	66,369	67,943
Dilutive options	4,146	3,136	4,050	3,372
Common equivalent shares	70,803	70,268	70,419	71,315
Fully diluted earnings per share:				
Net income	$ .55	$ .39	$ .83	$ .62

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JAN-01-1996
JUN-30-1996
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